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FISCAL IMPACT STATEMENT

LS 7814

BILL NUMBER: SB 518

NOTE PREPARED: Jan 10, 2007

BILL AMENDED:

SUBJECT: Eligibility for elderly property tax deduction.

FIRST AUTHOR: Sen. Drozda

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill increases from \$144,000 to \$175,000 the assessed valuation limitation for the residential real property tax deduction for certain individuals at least 65 years of age.

Effective Date: January 1, 2007 (retroactive).

Explanation of State Expenditures: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this proposal and subject to appropriation, annual state PTRC and homestead payments will be reduced. The total net state savings is estimated at \$35,000 in FY 2008 (partial year) and approximately \$88,000 in FY 2009. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The revenue reduction is estimated at about \$1,175.

Explanation of Local Expenditures: Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). These credits will decline by approximately \$20,000 in CY 2008. LOIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares.

Explanation of Local Revenues: Under current law, persons 65 or over (senior citizens) or their surviving spouses may receive an assessed value(AV) deduction on their real property or mobile home residence equal to one-half the assessed value of the property up to \$12,480. In order to qualify, the assessed value of the property may not exceed \$144,000 and the adjusted gross income of the taxpayer may not exceed \$25,000. This bill will increase the AV limit from \$144,000 to \$175,000. The income limit will remain at \$25,000.

This analysis assumes that all senior citizens who qualify for the aged deduction under current law are currently taking it; it also assumes that all the potentially additional taxpayers covered under this proposal would claim the deduction.

Estimates derived from income tax data indicate that this proposal will enable an additional 3,900 senior citizens and surviving spouses to claim this deduction in CY 2008. They will pay approximately \$696,000 less in taxes for an average net tax reduction of \$178 per taxpayer. At a maximum of \$12,480 per qualifying senior citizen household, this deduction will potentially reduce the tax base by \$49 M AV. This reduction in the tax base will cause a shift of property tax burden to all taxpayers in the form of an increase in the statewide average gross tax rate of about \$0.00031 in CY 2008. This translates to a property tax shift of \$804,000 to all other classes of property. This number exceeds the \$696,000 in tax savings to senior citizen taxpayers because the tax base for all other classes of property includes some property that does not qualify for homestead credits or school general fund PTRC. Senior citizen households, on the other hand, comprise only homesteads which qualify for these credits.

This analysis assumes that all senior citizens who would qualify for the deduction under this bill will actually claim it. If, however, these conditions change then the fiscal impact might be different from the results presented here. For example, if some taxpayers who qualified for the aged deduction under current law but did not claim it, decide to do so under this proposal, then the impact on State and Local revenues and expenditures will be correspondingly larger. On the other hand, if some applicable taxpayers under this proposal do not apply for the deduction, then this would have a smaller impact on State and Local revenues and expenditures.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance; State Fair Board; DNR Division of Forestry.

Local Agencies Affected: County Auditors.

Information Sources: Bureau of the Census; Local Government Database.

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